FINAL TRANSCRIPT

GrowGeneration Corporation

Third Quarter 2019 Results Conference Call

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PRESENTATION

Operator

Good morning, my name is Joanna and I will be your conference Operator today. At this time, I would like to welcome everyone to the GrowGeneration Corp. Third Quarter 2019 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad. If you would like to withdraw your question, please press star, followed by two. Thank you.

Mr. Salaman, President and Co-Founder, you may begin your conference.

Michael Salaman — President, GrowGeneration Corp.

Thank you. Good morning. My name is Michael Salaman, Co-Founder and President of GrowGeneration Corp. At this time, I would like to welcome everyone to the GrowGeneration third quarter 2019 earnings conference call. With me this morning is Darren Lampert, our CEO and Co-Founder, and Monty Lamirato, our CFO, who will both be participants on our call this morning. After our CEO and CFO's remarks, there will be a question-and-answer session.

Let's move onto today's call. As always, we expect to make forward-looking statements this morning, but I want to caution you that our actual results could differ materially from what we say here. Investors should familiarize themselves with the full range of risk factors that could impact our results, and those are filed in our Form 10-K which we filed with the Securities and Exchange Commission. I also remind everyone that today's call is being recorded and an archived version of our call will be available on our website later today.

Let me begin. GrowGeneration is the largest and fastest growing chain of hydroponic garden centers in North America. Today, GrowGen is a service provider of a wide selection of supplies and equipment for commercial and home growers. Today, GrowGen has 25 locations in eight states, over 300,000 square feet of retail and warehouse space that is today generating over 7,000 weekly transactions. Our online store now receives over 50,000 unique visitors per month and our commercial division is now servicing thousands of commercial customers and some of the largest multi-state operators in the U.S.

Our third quarter numbers reflect our team's execution and focus on revenue and EBITDA growth. Quarter 3 is our third consecutive profitable quarter. You will hear today from Darren and Monty that all of our financial metrics continue to be positive, all the while investing in technology and infrastructure. This week, Tony Sullivan was appointed Executive Vice President and Chief Operating Officer of GrowGeneration. Tony is a seasoned and private equity-backed executive with years of proven experience in operating large multi-store chains. Tony's appointment follows our third quarter announcement of the appointment of Bob Nardelli, the former CEO of Home Depot who was appointed Senior Strategic Advisor.

In the third quarter, we added four analysts who all initiated buy recommendations from investment banks that include Roth Capital, Ladenburg Thalmann, Lake Street Capital Markets, and Alliance Global Partners.

Our balance sheet is strong, allowing us to continue to execute our plan, purchasing the best-of-breed hydroponic operators and aggressively opening new GrowGen locations.

I will now turn the call over to Darren Lampert, who will present our third quarter 2019 results. Darren?

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Thank you Michael. Good morning and welcome to our third quarter 2019 earnings call. I'd like to begin our call by thanking our troops who protect our country every day and our veterans who served our country on Veterans Day. I would also like to thank the veterans who work for GrowGen for their service, as well as our shareholders, management and employees for their continued support and belief in the mission Michael and I set forth five years ago to build the largest national chain of hydroponic garden centers in the United States.

With 25 locations in eight states today, GrowGeneration is a leading marketer and distributor of nutrients, growing media, advanced indoor and greenhouse lighting, ventilation systems and accessories for hydroponic gardening. GrowGeneration is executing on all fronts, increasing revenues, gross profit margins, and Adjusted EBITDA for the third consecutive quarter. We have accomplished these financial goals while aggressively investing in technology, infrastructure, and human resources.

This past week, we hired Tony Sullivan as our Chief Operating Officer, one of our country's most experienced and proven multi-store operators. His initiatives will include but not be limited to providing unwavering support to the 25 GrowGeneration stores, adding new locations, integrating our ecommerce and store supply channels, and leveraging synergies amongst interconnected departments working to drive more cost efficiencies across all areas of our Company. Joe Prinzivalli will be stepping away from his role as a Chief Operating Officer and moving into a new role as Chief Technology Officer. Under Joe's leadership, our Company has grown into the premier hydroponic chain in the country and has successfully rolled out a robust ERP system.

We saw triple digit growth in Colorado, Michigan and Nevada and double digit growth in all other markets, including Heavy Gardens, our online business. GrowGeneration Management Corp, our commercial division is now approaching $5 million in sales per quarter and we added over 60 new commercial accounts in the third quarter of 2019. The newly acquired stores and new store openings are all performing better than expected and have been successfully integrated into the operations of the overall Company. With our success in Oklahoma, which is now at $10 million annual sales and growing, the Company has signed two new leases and is opening its 24th location in Oklahoma City on November 15 and 25th location in Tulsa in December of 2019.

Our private label program under the Sunleaves brand will hit our shelves and online in Q4. Our initial private label line-up includes a one-part micro and macro nutrient plus cow med powder line for both cannabis and hemp farmers, a silica plus micro nutrient booster and a root stimulant, all additives that can be used with any nutrient regimen. Additional private label products that will be on our shelves in Q4 include rope ratchets for hoisting lights, breathable fabric pots, and T5 fluorescent lights for indoor gardening.

The Company has $16 million in cash and is now generating over $2 million a quarter of free net cash, allowing us to close new acquisitions and open new store locations in emerging markets.

We improved the financial performance of the Company in all areas. Revenue was up 159 percent year-over-year at $21.8 million. For the nine month period ending September 30, 2019, revenue was $54.3 million versus $19.9 million for the nine month period ended September 30, 2018, an increase of 173 percent year-over-year. Adjusted EBITDA for Q3 2019 was slightly over $2 million, a positive $0.06 per share. Adjusted EBITDA for the nine months ended September 30, 2019 was approximately $4.5 million, a positive $0.14 per share.

Our same store sales for Q3 2019 were up approximately 48 percent year-over-year. Gross margin profits increased to 29.9 percent, an increase of 420 basis points year-over-year. Gross profit dollars was $6.5 million, an increase of $4.3 million or 215 percent versus the same period year-over-year. Our strategies to increase margins are working by purchasing in larger volumes and buying more efficiently.

We saw significant revenue increases in all key markets. Colorado was up 157 percent, California 67 percent, Nevada 136 percent, Michigan 105 percent, and Rhode Island up 95 percent. Our new stores in Oklahoma contributed $3.4 million in revenue in the third quarter and our stores in Maine added $2.5 million. Our ecommerce store, Heavy Gardens, added over $1.4 million, a 40 percent increase over its second quarter sales. Our commercial division added over $4.5 million in revenue, up from $3.8 million in the previous quarter.

With our significant top and bottom line growth, we reduced our store operating expenses by 25 percent and our corporate overhead by over 25 percent as a percentage of our revenue. To highlight our four wall economics, as a percentage of revenue gross profit was 29.9 percent, store operating expenses was 12.6 percent, G&A not including non-cash expenditures was 8.3 percent. Adjusted EBITDA was 9.4 percent of revenue, up from a negative 0.8 percent year-over-year.

The Company has successfully completed the implementation of its ERP system company-wide with only our Seattle store left to on-board. The GrowGen ERP platform is designed to lower costs, integrate our online and store sales and supply channels, improve departmental productivity, and provide forecasting and reporting tools. As our revenue continues to increase and corporate overhead declines as a percentage of revenue, we will continue to increase net income quarter-over-quarter.

To date, we have acquired six locations and opened two, with two more set to open in the fourth quarter of 2019. We have a strong pipeline of new acquisition targets set to close in Q4 of 2019 and in 2020. We are also investing in an aggressive new store opening program.

The Company continues the process of up-listing the Company to a larger exchange and will provide guidance shortly.

We are increasing our guidance for 2019 revenues to $74 million to $76 million and Adjusted EBITDA to $0.14 to $0.18 per share for 2019 based on 36 million shares outstanding.

I'd like to spend a few minutes going over our Q3 2019 financial highlights. Net income of $1.049 million for Q3 2019 compared to a net loss of $784,000 for Q3 2018, an increase of $1.8 million. Adjusted EBITDA of $2.046 million for Q3 2019 compares to Adjusted EBITDA loss of $71,584 for Q3 2018, an increase of $2.1 million. GAAP earnings of $0.03 per share for Q3 2019 and $0.07 per share year-to-date basic. Non-GAAP adjusted earnings per share of $0.06 per share for Q3 2019 and $0.14 per share year-to-date basic. Revenue of $21.8 million, up $13.4 million or 159 percent over Q3 2018 revenues of $8.4 million.

For the nine month period ended September 30, 2019, revenue was $54.3 million versus $19.9 million for the same period in 2018, an increase of 173 percent. Same store sales were up 48 percent for Q3 2019 versus Q3 2018. Gross profit margin percentage was 29.9 percent for Q3 2019 compared to 25.7 percent in Q3 2018. Store operating costs as a percentage of revenue have declined to 12.6 percent for Q3 2019 compared to 16.8 percent for Q3 2018. Corporate overhead as a percentage of revenue declined to 12 percent, 8.3 percent excluding non-cash for Q3 2019 compared to 16 percent of revenue for Q3 2018.

The Company had $16 million in cash and cash equivalents at September 30, 2019. As of September 30, 2019, the Company had working capital of $30.4 million compared to working capital of $21.6 million at December 31, 2018.

For the nine month period ended September 30, 2019, the Company acquired and opened eight stores, one in Denver, Colorado, Palm Springs, California, Reno, Nevada, Grand Rapids, Michigan, and two in Maine, and opened new store locations in Tulsa, Oklahoma and Brewer, Maine. In the fourth quarter, the Company plans to open its 24th and 25th locations in Oklahoma.

Tony Sullivan appointed Executive Vice President and Chief Operating Officer of GrowGeneration. Tony most recently served as Executive Vice President and Chief Operating Officer at Forman Mills, a $300 million business, Dollar Express, a $500 million carve-out out of 330 Family Dollar stores and 36 states, and 20-plus years at Foot Locker leading 2,100-plus stores and over $2.5 billion in sales as VP of Store Operations.

All convertible debt has been converted to equity as of September 30, 2019.

It's with great pleasure I now turn the call over to our CFO, Monty Lamirato who will provide more details to our third quarter results.

Monty Lamirato — Chief Financial Officer, GrowGeneration Corp.

Thanks Darren. Net revenue for the three months ended September 30, 2019 increased approximately 13.4 percent—excuse me, $13.4 million or 159 percent to approximately $21.8 million compared to approximately $8.4 million for the three months ended September 30, 2018. The increase in revenues in 2019 was primarily due to: one, the addition of 10 new stores opened or acquired after October 1, 2018 which had sales of $3.9 million in Q3 2019; two, the acquisition of a new store in mid-July 2018 that had $2.3 million in sales in Q3 2019 compared to sales of $1.6 million in Q3 2018; and the third reason, the new ecommerce site acquired in mid-September 2018 which had revenues of $1.4

million in Q3 2019 compared to $122,000 in Q3 2018. The Company also had an increase in same store sales comparing Q3 2018 to Q3 2019 of $2.7 million.

The Company continues to currently focus on eight markets and the new ecommerce site, and each one of these markets has seen a substantial increase in sales. For example, as previously noted, Colorado 157 percent increase in sales, Nevada 136 percent increase in sales, ecommerce over 1,000 percent increase in sales. Overall, the sales by market increased 159 percent.

Cost of goods sold for the three months ended September 30, 2019 increased approximately $9 million or 144 percent to approximately $15.3 million as compared to approximately $6.2 million for the three months ended September 30, 2018. The increase in the cost of goods sold was primarily due to the 159 percent increase in sales comparing the three months ended September 30, 2019 to the three months ended September 30, 2018. The increase in cost of goods sold is directly attributable to the increase of number of stores, as previously discussed.

Gross profit was $6.5 million for the three months ended September 30, 2019 compared to approximately $2.2 million for the three months ended September 30, 2018, an increase of approximately $4.3 million or 201 percent. Gross profit as a percentage of sales was 29.9 percent for the three months ended September 30, 2019 compared to 25.7 percent for the three months ended September 30, 2018. The increase in the gross profit margin percentage is due to: one, the reduced pricing from vendors as a result of our increasing purchases from those vendors; two, the sales of product acquired in large bulk purchase in the first quarter of 2019 at a substantial discount; and three, the positive impact of the successful implementation of our ERP system designed to lower costs, integrate our online and store sales and supply chain channels, improving departmental productivity and forecasting and reporting tools.

Operating expenses comprised of store operations, primarily payroll, rent and utilities, and corporate overhead. Store operating costs were approximately $2.7 million for the three months ended September 30, 2019 and approximately $1.4 million for the three months ended September 30, 2018, an increase of approximately $1.4 million or 94 percent. The increase in store operating costs was again directly attributable to the addition of eight new locations that were acquired or opened in 2019, two locations acquired in June and July of 2018 for which there were only partial sales in 2018, and two new stores opened in new markets in 2019 that were not open for any portion of the three months ended September 30, 2018. In addition to the new stores opened or acquired in 2019, as we previously discussed, we acquired eight stores in various times in 2018, opened a new store in October 2018, and acquired our new ecommerce site in mid-September 2018.

Effective April 1, 2019, we opened two warehouse facilities. The addition of these new stores, as previously discussed, and the two new warehouse facilities were the primary reasons for the increase in store operating costs. Store operating costs as a percentage of sales were 12.6 percent for the three months ended September 30, 2019 compared to 16.8 percent for the three months ended September 30, 2018. Store operating costs were positively impacted by the acquisition of new stores in 2018 and 2019 which have lower percentage of operating costs to revenues due to their larger size and higher volume. In addition, same store sales increased 48 percent comparing the quarter ended September 30, 2019 to the quarter ended September 30, 2018. The net impact, as noted, was lower store operating costs as a percentage of revenues.

Corporate overhead, comprised of general and administrative costs, share-based compensation, depreciation and amortization, and corporate salaries was approximately $2.6 million for the three months ended September 30, 2019 compared to approximately $1.3 million for the three months ended September 30, 2018. Corporate overhead was 12 percent of revenues for the three months ended September 30, 2019 and 16 percent for the three months ended September 30, 2018. The increase in salary expense from 2018 to 2019 was primarily due to the increase in corporate staff to support expanding operations, including purchasing, store integrations, accounting, finance, information systems, purchasing, and commercial sales staff. It should be noted that when we consummate a new acquisition, purchasing and back office accounting functions are stripped from the new acquisitions and those functions are absorbed into our existing centralized purchasing, accounting and finance departments, thus delivering cost savings.

Corporate salaries and related payroll costs as a percentage of sales were 4.7 percent for the three months ended September 30, 2019 compared to 5.5 percent for the three months ended September 30, 2018. General and administrative expenses, comprised mainly of advertising and promotion, travel and entertainment, professional fees and insurance, were approximately $804,000 for the three months ended September 30, 2019 and approximately $375,000 for the three months ended September 30, 2018, with the majority of the increase related to advertising and promotion, travel and entertainment, and legal fees. General and administrative costs as a percentage of revenue were 3.7 percent for the three months ended September 30, 2019 and 4.5 percent for the three months ended September 30, 2018. As noted earlier, corporate overhead, which includes non-cash expenses consisting primarily of depreciation and share-based compensation, was approximately $801,000 for the three months ended September 30, 2019 compared to approximately $481,000 for the three months ended September 30, 2018.

As previously noted, at September 30 we had working capital of approximately $30.4 million compared to working capital of approximately $21.6 million as of December 31, 2018, an increase of approximately $8.8 million. The increase in working capital from December 31, 2018 to September 30, 2019 was primarily due to: one, the proceeds from the sales of common stock and exercise of warrants totaling approximately $14.1 million during the nine months ended September 30, 2019 and offset by the application of a new accounting standard related to the accounting for operating leases, which resulted in a $1.6 million increase in current liabilities.

At September 30, 2019, we had cash and cash equivalents of approximately $16 million. As of the date of this filing, we believe that existing cash and cash equivalents are sufficient to fund existing operations for the next 12 months.

Darren, let’s go ahead and send it back to you.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Thank you Monty. GrowGeneration has built a national footprint with 25 locations in eight states. Grow Generation is now the largest and fastest growing chain of hydroponic garden centers in North America, selling nutrients, growing media, advanced indoor and greenhouse lighting and ventilation systems, and accessories for hydroponic gardening. Our leadership position is driven through our corporate mission statement to be the largest hydroponic service provider in the world.

Our Company continues to achieve its financial goals and Q3 was our third consecutive quarter of net income with an Adjusted EBITDA over $2 million. Revenues were up 159 percent, margins were up 420 basis points to 29.9 percent, Adjusted EBITDA was a positive $0.06 per share, $0.14 per share to date, with store operating expenses down 25 percent and corporate overhead down 25 percent as a percentage of revenue.

Q4 has started out strong. We service thousands of growers and generate over 7,000 weekly store transactions. We recently added Tony Sullivan as Chief Operating Officer following Bob Nardelli, a former CEO of Home Depot who was appointed as Senior Strategic Advisor. Our balance sheet is strong, which allows us to continue purchasing the best-in-breed hydroponic operations and aggressively opening new GrowGen locations.

The Company continues the process of up-listing to a larger exchange. We are adjusting our guidance up for 2019 to $74 million to $76 million in revenue and $0.14 to $0.18 in Adjusted EBITDA based on 36 million shares outstanding. We look forward to continuing to provide guidance as need be and we are excited to share our successes with our shareholders, our Management Team and partners.

We'd now like to open it up for a few questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question and answer session. Should you have a question, please press the star, followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. Should you wish to decline from the polling process, please press star, followed by two.

Your first question is from Aaron Grey from Alliance Global Partners. Please go ahead, Aaron.

Aaron Grey — Analyst, Alliance Global Partners

Thanks for the questions, and great to see the continued momentum on the top and bottom line.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Thanks Aaron.

Aaron Grey — Analyst, Alliance Global Partners

First question I just have is on the new guidance that you guys put out today, specifically on the revenues. Can you provide some guidance on quarter to date trends, because it looks like the high end of guidance will have revenues about flat sequentially, so I just want to know, is that more a function of some conservatism, or have you seen some change in momentum in the business in the fourth quarter, particularly given the new store openings you plan on having on Oklahoma City? Any colour there will be very helpful, thanks.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Right now, Aaron, we're taking a conservative approach. Our October numbers were very strong. The fourth quarter at GrowGeneration, because of the holidays, is usually a slower period for us, so we are taking a conservative approach to it; but as of now, again, the quarter is tracking wonderful.

Aaron Grey — Analyst, Alliance Global Partners

All right, great to hear. Then just looking at little bit longer term, not to get too far ahead of us, but Scott's the other week did point to continued momentum in their own business through what looks to be about March next year, and then some decelerated growth beyond that as they face tougher comps. Just as we look at your business, maybe more so from a same store sales and maybe top line perspective, would you expect something similar because you are going to start to face tougher comps in 1Q, so help us look at the business going forward over the next 6 to 12 months, both top line and then specifically same store sales.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

We're not seeing it as of yet, Aaron. We're seeing increased momentum in all markets right now. Our stores are winning business all over the country. Our tagline service supply solution, we're winning all the large MSOs and our business continues to increase.

Our business model is a notch different than Scott's. We service the customers, and right now, our commercial team is firing on all cylinders, our online division is firing on all cylinders, and so are our stores, so right now we see continued momentum going into 2020.

Michael Salaman — President, GrowGeneration Corp.

Aaron, I would just add - this is Michael, just adding that we're still very early in the development of legalization. We have 25 locations. We certainly see a strong pipeline of acquisitions going into 2020, as well as opening up new locations as well. We're certainly following the legal footprint, so there is tremendous growth. As Darren mentioned, this quarter and the previous quarter, you're seeing tremendous momentum in our commercial business and that business is a year old, so we see tremendous growth continuing in that area as well as the expansion into new markets, and continue to stay focused on same store sales. We certainly believe 2020 will be an equally growth market and year for GrowGen.

Aaron Grey — Analyst, Alliance Global Partners

All right, that's great to hear, and also great to hear about the hiring of Tony Sullivan as COO. Can you talk to us a little bit about how you plan to leverage Tony's retail expertise? I know it's still his very early days with the Company. Do you believe that presents some opportunity for you to accelerate growth of retail store openings, and then could you just offer some colour in terms of I believe last quarter you had hired a national real estate company to help identify some strategic location opportunities, so just any update in terms of what you believe the opportunities over the next couple of years in terms of new store openings.

Michael Salaman — President, GrowGeneration Corp.

Yes, I mean, we see similar growth. When we opened and acquired 10 new stores this year, we see similar activity in 2020. Tony brings just such a seasoned veteran executive that has gone through ERP implementations, omnichannel execution, opening up new stores, plan-o-grams. The amount of efficiencies that Tony, I believe, will bring to the Company is tremendous. He's certainly just getting his feet under himself, just starting last week, but we see tremendous margin expansion, cost efficiencies, and just standardization of the process of opening up new locations. His experience is a tremendous add to our C-level executive team.

Aaron Grey — Analyst, Alliance Global Partners

All right, thank you. I'll jump back in queue.

Operator

Thank you. The next question is from Mark Smith from Lake Street Capital Markets. Please go ahead, Mark.

Mark Smith — Analyst, Lake Street Capital Markets

Hey, good morning guys. First off, can you give us an update on the two new stores here in Oklahoma, and also discuss what's driving such strong results from the stores in that state.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Yes, our new store in Oklahoma City, the grand opening is November 15. Tulsa should be open sometime in mid-December. What's driving growth in Oklahoma is the amount of licenses that were issued. There were over 3,000 licenses issued. Compared to certain other states, it's a tremendous amount, so as the growers continue to build out, our business continues to grow and we're winning business all over Oklahoma right now. We can't service what's going on in the two locations we have, so again we're opening two large locations and we look forward to getting the stores open and for business to start flowing through to service the individuals of Oklahoma.

Mark Smith — Analyst, Lake Street Capital Markets

Perfect. I know this might be tough with such a fast growing company. Can you just talk about your comfort with your current inventory levels?

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

We're comfortable with current inventory levels, but like anything else we'd always like to bring them down, so certainly an initiative for 2020 with being on one ERP system, we find that we think it will be much easier to get a handle on inventory. Tony has just started with us as our Chief Op, we're meeting him in Colorado this afternoon, so certainly we're going to start working on it. I think any company always wants to lower inventory, and certainly it's an initiative for 2020.

Mark Smith — Analyst, Lake Street Capital Markets

Okay. Similarly, can you talk about where you guys are at as far as purchasing power as you get larger and as you go maybe directly to some of the manufacturers?

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

I think it'll continue. Like anything else, as we continue to grow, our purchasing power continues to increase and certainly gives us a couple more notches on our belt here and there, so we look forward to continuing to grow and continuing to get better pricing, both for our company and for our customers.

Michael Salaman — President, GrowGeneration Corp.

The other interesting part about our ability to purchase is also the fact that we now have a national distribution system. A lot of companies that are looking to introduce new products are coming to GrowGen. We have a staff, we have a large distribution system, we have plenty of retail showroom space, we have plenty of warehouse space, so we see GrowGen in a great position to also attract the latest technologies of new products that are coming into the market, in addition to the stable products that we continue to sell and get better pricing based on our purchasing. But products are changing as the market is commercializing, and our ability to sell through a knowledge-based sales force, to provide demonstrations in an experiential way within all of the locations puts GrowGeneration in a very unique position to establish exclusive distribution agreements with the cutting edge companies that are coming into the market, that are already looking to introduce new products, and we're getting more and more of those types of relationships which is also going to be accretive on many different levels.

Mark Smith — Analyst, Lake Street Capital Markets

Perfect. Then last one from me, I know that it's still really early, but how do you feel about your private label initiative and the opportunity to hit 10 percent and then maybe continue to grow the size of that business?

Michael Salaman — President, GrowGeneration Corp.

Yes, I mean, it's just beginning and it comes back to the fact that we've scaled the business, we have the distribution, we have customers, and we certainly believe that there's opportunities within each one of our 10 product departments, that we can have a private label product that is of the highest quality but at a very attractive price for our customers. We've started in the areas of some powders and additives and some of the staple products that we mentioned during the phone call, but we're certainly focused on developing additional private label products across all of our different product categories, and we do believe that we can hit at least 10 percent of our purchasing can be in the private label area. It's one of the major initiatives that Tony is going to execute and implement in 2020.

Mark Smith — Analyst, Lake Street Capital Markets

Excellent. Thank you guys.

Michael Salaman — President, GrowGeneration Corp.

Thank you.

Operator

Thank you. The next question is from Scott Fortune from Roth Capital Partners. Please go ahead, Scott.

Scott Fortune — Analyst, Roth Capital Partners

Good morning. Congrats on the quarter, guys.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Thank you Scott.

Scott Fortune — Analyst, Roth Capital Partners

Real quick one, a look over states, the key states you guys maybe look to go deeper into going forward, and then just calling out California on a sequential basis, a little bit lower. Is California an emphasis to expanding from the state side, or what other states are key going forward for you guys here?

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Yes Scott, with regards to California, we will be expanding into California in 2020 into probably the L.A. area, where we don't have locations as of now. We're down in Palm Springs. Our Northern California stores, same store sales were up. Our largest store in Northern California, our Santa Rosa store will be coming online same store sales this quarter, so you should certainly see a little uptick in that. But again, we continue to build. We continue to look at California, and that's an initiative for 2020.

Scott Fortune — Analyst, Roth Capital Partners

Okay. Any other key states as you look at the obviously acquisition front? With the cannabis industry coming off from a valuation standpoint, are you seeing better opportunities or newer states that you might be targeting that look pretty interesting here going forward?

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Yes, new store openings we're targeting right now are Missouri and Illinois, still waiting on some of the back east states right now - New Jersey, New York, we need a little more confirmation right now.

Our Rhode Island store right now, you see same store sales up 95 percent. A lot of that is fueled right now by selling into the Massachusetts market, so we're also actively looking at Massachusetts right now. We see the market starting to strengthen in Massachusetts with some of the new MSOs coming on board. That's really it, and we're going to continue doing what we're doing. We're opening stores where we see fit and we're expanding our online store tremendously to service commercial growers throughout the country.

We're also starting to take a look onto the product side of it, and I think you'll see a product acquisition from GrowGen in 2020 also.

Michael Salaman — President, GrowGeneration Corp.

You know, Scott, the other thing to think about when you look at the Company is we're customer focused. We're certainly working with a lot of the multi-state operators that are growing state by state, so we're organically growing through the servicing of these large MSOs. With our commercial division, which is now growing substantially quarter over quarter, we're able to really do business with anyone in any state, so as these commercial operators come on, small medium or large, GrowGeneration is able to service them from A to Z, from lighting to benching, all the way through their consumables, and leverage the distribution and the store infrastructure to service those customers from a customer service perspective and a consumable perspective on an ongoing basis.

Our vision is to look at the country not just state by state, so we're getting business literally wherever there's commercial customers. We're attacking and acquiring and servicing and retaining, and that's a big part of the mantra that Tony is bringing into this company, world-class service provider.

That's what GrowGeneration is. We're not just 25 locations, we're a company dedicated in servicing these commercial customers at the highest level, and if we continue to do that, we will gain and we will retail and we will continue to grow our Company organically and through the acquisition model that we have.

Scott Fortune — Analyst, Roth Capital Partners

Sounds great. Thanks for the colour there. Real quick, last question, I know it's early but the hemp initiatives and an update on the hemp opportunities going forward here.

Michael Salaman — President, GrowGeneration Corp.

Hemp is a watch and see. I mean, we're certainly very focused and we've developed our powder to be a powder that could be offered to the hemp market. This was really, in our opinion, the first year of real successful hemp harvest, and we certainly believe that it's a great opportunity. It's a vertical market. We're developing products specifically in the areas of drying. We made an investment with a group in Indiana, so we're looking at the market very carefully. It's certainly more of an outdoor versus an indoor market, but certainly there's a great opportunity to continue to keep our eye on the ball there and to leverage as these farmers continue to perfect their harvest. GrowGeneration will be positioned to offer them a supply chain and a solution of products for hemp farmers going forward.

Scott Fortune — Analyst, Roth Capital Partners

I appreciate it. That's it for me, thanks guys.

Operator

Thank you. Ladies and gentlemen, as a reminder, should you have any questions, please press star followed by one. The next question is from Glenn Mattson from Ladenburg Thalmann. Please go ahead, Glenn.

Glenn Mattson — Analyst, Ladenburg Thalmann

Hi, good morning. Thanks for taking the questions, and nice quarter. It was just mentioned, Scott asked about the California markets. I'd be curious, I know a couple years ago you had some issues with the California fires affecting sales. Have you seen anything like that this time around?

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Our business remains strong in California right now, Glenn. We have not. Our Santa Rosa store was closed for four days this month because of the fires, but absent that business has picked right back up.

Glenn Mattson — Analyst, Ladenburg Thalmann

Okay, good to hear. On the private label, great to see it starting to—products starting to come out in Q4 here. A question about how that affects margins in the short run, but then also, do you need to do any brand awareness spending to support the launch?

Michael Salaman — President, GrowGeneration Corp.

We will. I mean, we certainly have our social media platform, our internet which is getting over 50,000 visitors. It's a great way to introduce new product. Our sales team is certainly being educated. We're bringing product out via end caps within all the stores, and we're also going to be putting out an official press release and having our products on display at the big national MJBizCon trade show coming up in December, which we think is going to create a lot of interest and awareness around our private label products to the commercial growers. It's a multifaceted marketing and sales campaign that we will start within the four walls of the store environment, our online, and then certainly utilize our online digital marketing and social media, and also bring it out to all the existing commercial customers that we're servicing.

Glenn Mattson — Analyst, Ladenburg Thalmann

Okay, great. Then there was a couple times you guys mentioned the commercial business doing well. I think you said you added 60 new commercial accounts. Can you talk about if you added any large MSOs that you could call out, and then also just give us—refresh us on the number of sales people today and if maybe under new leadership, a new COO, if your plans are to add bodies to that sales force next year or what the outlook is.

Michael Salaman — President, GrowGeneration Corp.

We're constantly adding new qualified individuals, and what's interesting about the Company, we have almost 200 employees, we're able to look within the Company. There's a lot of staff within the stores and our purchasing department that are going to be redeployed into quoters and logistics staff to service the commercial business. We continue to add new commercial business on a regular basis.

We’ve created the infrastructure, not just the pricing model but we’re also curating the products which are different than a hobbyist market, and putting that into a logistics and a customer service model that’s giving us the ability to gain the largest MSOs to the small and to medium-sized commercial groups that we certainly are attracting as well.

Glenn Mattson — Analyst, Ladenburg Thalmann

Okay, great. Thanks Michael. I’m curious, one point on margins that Monty brought up was that the sale of product acquired in bulk purchases, I assume that was from the acquisition of inventory from BWGS - correct me if I’m wrong, and can you just give us an idea of how much that impacted margin in the quarter positively and how much product is left in that batch, that low cost inventory? Thanks.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

It was a $17 million batch, and basically our forecast when we picked up the inventory from BWGS, there was going to be a three-year leak-out of inventory, so you’ll see the next three years that inventory leaking out over time. We think that, again, it may have been one basis point, but very little. Our margins right now are being fueled by our ERP system and better purchasing right now.

Glenn Mattson — Analyst, Ladenburg Thalmann

Okay, great. Thanks, that’s it for me, guys. Thanks.

Michael Salaman — President, GrowGeneration Corp.

Thank you.

Operator

Thank you. There are no further questions at this time. You may proceed.

Michael Salaman — President, GrowGeneration Corp.

Well, I want to just thank everyone for their time and certainly wish everyone a happy Veteran's Day, and we will be reporting our year-end numbers. Thanks to our staff, management, executive team for all their hard work, and we look forward to reporting, as I said, our year-end results. Appreciate it, and everyone have a great day. Thank you.

Darren Lampert — Chief Executive Officer, GrowGeneration Corp.

Thank you.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and we ask that you please disconnect your lines.